ANNEXURE NO. 6

[*Vide* Unstarred question No. 465 (a) to (c) answered on 7th December, 2004]

DETAILS OF INCIDENCE OF FRAUDS AND REMEDIAL MEASURES TO BE TAKEN BY BANKS

RESERVE BANK OF INDIA
CENTRAL OFFICE
URBAN BANKS DEPARTMENT
1st FLOOR, GARMENT HOUSE
WORLI, MUMBAI-400018

RBI/2004/214
UBD. No. BPD. 47 A/12.05.10(WA)/2003-2004 MAY 24, 2004

The Chief Executive Officers of
All Primary (Urban) Co-operative Banks

Dear Sir,

Loan against house property

Certain instances of housing loans granted against mortgage of house property the value of which has been shown to be unrealistically high, have come to our notice. In such cases, the possibility of banks incurring a loss in the event of a need arising to recover the loan through disposal of the security is very high. All the primary (Urban) Co-operative banks are, therefore, advised to exercise due caution with regard to valuation as well, while sanctioning loans and advances against mortgage of house property. Further, whenever instances of valuers having inflated the value of a property come to notice, suitable action should be taken against them.

Please acknowledge receipt of this circular to the Regional Office concerned.

Yours faithfully,

Sd/-
(N.S. Vishwanathan)
Chief General Manager

RESERVE BANK OF INDIA
CENTRAL OFFICE
URBAN BANKS DEPARTMENT
1st FLOOR, GARMENT HOUSE
WORLI, MUMBAI-400018

RBI No./2004/
UBD. No. BPD. 15/12.05.01/2004-2005 September 1, 2004

The Chief Executive Officers of
All Primary (Urban) Co-operative Banks

Dear Sir,

Frauds in the area of Housing Finance

We advise that a Group headed by General Manager, Central Bank of India constituted by Reserve Bank of India examined the cause for growing incidence of frauds in Housing Finance and submitted its report indicating remedical measures. We forward herewith a copy of the report containing the remedical measures suggested by the Group for your information and necessary action.

Please acknowledge receipt to our Regional Office concerned.

Yours Faithfully,

Sd/-
(N.S. Vishwanathan)
Chief General Manager

Encl: 5 sheets

REPORT OF THE COMMITTEE ON FRAUDS IN HOUSING FINANCE

Point No. 1

Type of Frauds	Fabrication of Income Documents like Income-Tax Return/Salary Slip/Balance Sheet etc.
Severity of fraud	LOW
Modus Operandi	Committed generally by borrowers in connivance with Direct Selling Agent/Estate Agent/Builders
Mitigating factors/ Suggestion for Preventive cures	1 Verification of salary slips with employer 2. Income Tax Department should upload on their website the list of Income Tax payers and defaulters. 3. Salary amount should be compared with Bank Statement. 4. Cross verification of balance sheet. 5. Personal interview of the borrower plays very important role.

Point No. 2

Type of Frauds	Loand amount disbursed by way of cheque/ Demand drafts are encashed by third party/agents etc.
Severity of fraud	MEDUIUM
Modus Operandi	Disbursed amount cheques are collected by the Agents/third parties from the borrower's bank and deposited in fictitious account opened for this purpose and amounts are withdrawn from such bogus account.
Mitigating factors/ Suggestion for Preventive cures	1. Cheques should be issued in the name of bankers to the Builders with the bank account number on it. 2. Cheque should not be handed over to the borrower/agent/ seller. Bank's Marketing Officials can be sent for delivery of cheque to the builders/ sellers of property at the registered address mentioned in the title deeds.

Point No. 3

Type of Frauds	Title documents being forged-Stamped documents forged by Borrower customer/Builder
Severity of fraud	HIGH
Modus Operandi	Coloured Xerox copy of various documents are produced including emcumbrance certificate, fake stamp papers etc. which are difficult to identify/distinguish from the original one.
Mitigating factors/ Suggestion for Preventive cures	1. Tracking and sharing of all information among the Banks & Housing Finance Companies about names of blacklisted builders & developers. 2. Agreement for sale/document of title should be in DEMAT form. 3. In case of large value loans, bank can approach the Sub-Registrar's Office to verify the genuineness of the stamp paper/ documents/registration receipts, etc.

Point No. 4

Type of Frauds	Over valuation of the property
Severity of fraud	MEDIUM
Modus Operandi	These frauds are committed to draw higher loan amount by the borrower in connivance with the Builders/valuers. the valuse of the property are inflated by including various expenditure and additional amenities, fixtures, legal charges, society advance, maintenance charges, etc. which are non-existing.
Mitigating factors/ Suggestion for Preventive cures	1. For valuation over Rs. 25 lacs, valuation should be done by two independent valuers. 2. Govt. should introduce certification course for the approved valuers. 3. Banks should develop in house expertise for valuation of properties.

Point No. 5

Type of Frauds	Multiple financing
Severity of fraud	HIGH
Modus Operandi	These frauds are extension of the fake documents that are produced to different banks/Housing Finance Agencies
Mitigating factors/ Suggestion for Preventive cures	1. Tracking & sharing of information among the Banks & HFCs about names of black listed Builders & developers selling same properties to more than one buyer. 2. Agreement for sale/document of title should be in DEMAT form. 3. Bank/Housing finance Agencies should insist on the original title deeds of the landed property on which structure is built.

Point No. 6

Type of Frauds	1. Cancellation of booking of Flats/property i.e. collusion between customer and builder.
Severity of fraud	MEDIUM
Modus Operandi	In this case after availling the initial loan amount, the booking is cancelled and the borrower directly take the refund from the builders.
Mitigating factors/ Suggestion for Preventive cures	Registration receipt issued by Registrar of stamps office should bear hypothecation Clause as in case of certificate of Registration has in case of Auto Loan.

Point No. 7

Type of Frauds	Sale of property by loanee without clearing existing loan
Severity of fraud	MEDIUM
Modus Operandi	Property is sold through duplicate/fake title deeds even though the legal title is with the bank/Housing Finance Agencies.

Mitigating factors/ Suggestion for Preventive cures	1. Equitable Mortagage should be created at Registar's office by deposit of title Seeds. For this purpose all banks should represent to Central & State Government through I.B.A. & R.B.I. for enactment of necessary provisions. 2. Internal due diligence plays important role to prevent this type of frauds.
Point No. 8	
Type of Frauds	Mis-representation of end use of loan
Severity of fraud	LOW
Modus Operandi	Loan taken for Residential Housing Property. However, Commercial property is purchased by availling such loan.
Mitigating factors/ Suggestion for Preventive cures	In order to ensure end use of loan, bank should depute Officer for inspection/verification of property, whether it is Residential Housing Property of Commercial Property.
Point No. 9	
Type of Frauds	Sale of property by builder without clearing/reparying Construction Funding Loan availed by them from banks/Housing Finance Companies.
Severity of fraud	MEDIUM
Modus Operandi	Builders/property developers after taking Construction loan from banks/Housing Finance Agencies are selling developed ready flats/ Galas/ developed plots. etc. without knowledge of their financiers & without repaying construction Funding loan to them.
Mitigating factors/ Suggestions for Preventive cures	1. This aspect of construction Funding Loan whether availed by the developer/builder or not, should be verified at Project clearance level by Banks/Housing Finance Companies. 2. Original documents should be called for verifications at the time of appraisals of any Housing Loans.